

# **State of Alaska FY2005 Governor's Operating Budget**

## **Department of Revenue Alaska Permanent Fund Corporation Component Budget Summary**

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## Component: Alaska Permanent Fund Corporation

### Contribution to Department's Mission

The mission of the Alaska Permanent Fund Corporation is to maximize the value of the Permanent Fund within return objectives

### Core Services

- Investment management for Fund assets
- Provide public information on Fund activities

End Results	Strategies to Achieve Results
<p><b>(1) Maximize the value of the Fund</b></p> <p><u>Target:</u> A long-term 5% real rate of return  <u>Measure:</u> Real rate of return over time</p> <p><b>(2) Provide Alaskans with complete and timely information on Fund activities and issues</b></p> <p><u>Target:</u> Meet all statutory and communication plan guidelines for disseminating information  <u>Measure:</u> Target objectives are completed</p>	<p><b>(1) Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return</b></p> <p><u>Target:</u> The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board  <u>Measure:</u> The Fund's rate of return versus the investment performance benchmark</p> <p><b>(2) Control operation and investment management expenses</b></p> <p><u>Target:</u> APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds  <u>Measure:</u> APFC ratio of cost to assets managed compared to similar funds</p> <p><b>(3) Develop and implement an annual communications plan</b></p> <p><u>Target:</u> Complete tasks in communications plan  <u>Measure:</u> Communications plan tasks are completed</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> <li>• Contract with external investment managers for specific expertise for stocks, bonds, and real estate</li> <li>• Internal bond portfolio management</li> <li>• Daily, monthly, quarterly, and annual performance and compliance reports</li> <li>• Annual dividend distribution</li> <li>• Renegotiate fees on an ongoing basis</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare quarterly reports, newspaper inserts and other publications</li> <li>• Maintain web site and keep content up-to-date</li> <li>• Prepare talking points on PFC topics for public speaking engagements</li> <li>• Respond to media and public inquiries</li> <li>• Provide PFC educational materials for Alaska's schools</li> </ul>

## FY2005 Resources Allocated to Achieve Results

FY2005 Component Budget: \$6,994,900

## Personnel:

Full time	32
Part time	0
<b>Total</b>	<b>32</b>

## Performance Measure Detail

## (1) Result: Maximize the value of the Fund

**Target:** A long-term 5% real rate of return**Measure:** Real rate of return over time

Rolling 10-year Returns

Year	FY92-FY01	FY93-FY02	FY94-FY03		YTD Total
0	7.3%	6.0%	5.3%		

**Analysis of results and challenges:** The Board of Trustees working within the statutorily allowed investment list has adopted a long-term 5% real rate of return target. The rate is the maximum sustainable payout that maintains the Fund's purchasing power over the long-term.

## (2) Result: Provide Alaskans with complete and timely information on Fund activities and issues

**Target:** Meet all statutory and communication plan guidelines for disseminating information**Measure:** Target objectives are completed

Year	FY2002	FY2003	FY2004		YTD Total
0	NA	NA	NA		

**Analysis of results and challenges:** The Board and staff believe it is critical to practice good corporate governance by holding ourselves accountable to the people of Alaska. We believe that it is critical to be as clear and open as possible regarding decisions made and the resulting Fund performance.

We do not have existing measurement data.

## (1) Strategy: Develop and implement an asset allocation plan that minimizes the risk necessary to achieve the target return

**Target:** The Fund's rate of return meets or exceeds the composite investment performance benchmark adopted by the Board**Measure:** The Fund's rate of return versus the investment performance benchmark

APFC total return versus Benchmark return

Year	APFC Return	Benchmark			YTD Total
2001	-3.26%	-4.46%			NA
2002	-2.24%	-3.65%			NA
2003	4.46%	4.80%			NA

**Analysis of results and challenges:** Experts agree that over 90% of performance (return) is attributable to the asset allocation decision. We anticipate evaluating expanded asset class opportunities in the future with the goal of increasing total return and further diversifying the funds asset mix.

## (2) Strategy: Control operation and investment management expenses

**Target:** APFC expenses are within the lower 25th percentile of cost to assets managed compared to similar funds

**Measure:** APFC ratio of cost to assets managed compared to similar funds

APFC ratio of cost to assets compared to similar funds

Year		APFC	Median		YTD Total
2003	Equities-Domestic	.17%	.34%		NA
2003	Equities-Non Domestic	.23%	.45%		NA
2003	Fixed Income-Domestic	.02%	.17%		NA
2003	Fixed Income-Non Domestic	.12%	.26%		NA

**Analysis of results and challenges:** Survey data as of 12/31/2001. Survey does not include expenses for managing Real Estate. APFC used Callan Associates Inc. 2002 Fund Sponsor Cost of Doing Business Survey for this comparison. This survey is only produced every few years and is the only one that compares funds that are similar in size.

Expenses and operational efficiencies have a direct affect on returns over time. APFC will continue to control investment expense by negotiating appropriate fee structures and looking for operational efficiencies.

## (3) Strategy: Develop and implement an annual communications plan

**Target:** Complete tasks in communications plan

**Measure:** Communications plan tasks are completed

**Analysis of results and challenges:** APF is a public fund with high visibility and importance to Alaskans. The Corporation must be accountable and maintain the public trust by communicating to Alaskans effectively and efficiently. We expect that the communication plan will include additional outreach as the Corporation advocates for the constitutional amendment on Percent of Market Value (POMV).

### Key Component Challenges

- Plan for and manage investment risk during times of increasing market volatility, while taking advantage of opportunities to increase returns (including the increased statutory flexibility).
- Continued promotion of a constitutional amendment to adopt a payout rule based on a percentage of market value (POMV) distribution of the Fund.
- The State's fiscal shortage creates pressure to continue to cut costs while balancing operational efficiencies with operational risk.
- Ensure investment policies maintain the delicate balance between the Fund's competing mandates of protecting the Fund to benefit future generations and producing income to benefit current generations.

### Significant Changes in Results to be Delivered in FY2005

Work to adopt a payout method which is directly related to the Fund's 5% real rate of return goal versus an income based payout method.

### Major Component Accomplishments in 2003

- The Fund had a positive 4.5% total return for FY2003

- The Fund increased by \$449.1 million after accounting for the Alaska Permanent Fund Dividend distribution
- New POMV legislation was introduced and moved through committee in both bodies

## Statutory and Regulatory Authority

AS 37.13

Contact Information
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# Alaska Permanent Fund Corporation Component Financial Summary

*All dollars shown in thousands*

	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	3,005.1	3,065.6	3,285.5
72000 Travel	205.4	290.7	256.9
73000 Contractual	2,816.4	3,407.5	3,251.2
74000 Supplies	27.5	47.0	42.3
75000 Equipment	147.5	200.5	159.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>6,201.9</b>	<b>7,011.3</b>	<b>6,994.9</b>
<b>Funding Sources:</b>			
1105 Alaska Permanent Fund Corporation Receipts	6,201.9	7,011.3	6,994.9
<b>Funding Totals</b>	<b>6,201.9</b>	<b>7,011.3</b>	<b>6,994.9</b>

**Summary of Component Budget Changes  
From FY2004 Authorized to FY2005 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2004 Authorized</b>	<b>0.0</b>	<b>0.0</b>	<b>7,011.3</b>	<b>7,011.3</b>
<b>Adjustments which will continue current level of service:</b>				
-Changes to Retirement and Other Personal Services Rates	0.0	0.0	151.9	151.9
<b>Proposed budget decreases:</b>				
-Adjustment to reflect spending plan	0.0	0.0	-168.3	-168.3
<b>FY2005 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>6,994.9</b>	<b>6,994.9</b>



**Alaska Permanent Fund Corporation  
Personal Services Information**

Authorized Positions			Personal Services Costs	
	<u>FY2004</u> <u>Authorized</u>	<u>FY2005</u> <u>Governor</u>		
Full-time	32	32	Annual Salaries	2,573,880
Part-time	0	0	Premium Pay	0
Nonpermanent	3	2	Annual Benefits	864,981
			<i>Less 4.46% Vacancy Factor</i>	(153,361)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>35</b>	<b>34</b>	<b>Total Personal Services</b>	<b>3,285,500</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant	0	0	4	0	4
Administrative Assistant	0	0	2	0	2
Administrative Officer	0	0	2	0	2
Administrative Specialist	0	0	2	0	2
Chief Investment Officer	0	0	1	0	1
Chief of Operations	0	0	1	0	1
Controller	0	0	1	0	1
Director of Finance	0	0	1	0	1
Director, Info Technology	0	0	1	0	1
Executive Director, PFC	0	0	1	0	1
Executive Secretary	0	0	2	0	2
Information Technology Spec	0	0	2	0	2
Intern	0	0	2	0	2
Investment Associate	0	0	2	0	2
Investment Officer	0	0	7	0	7
Research Analyst	0	0	1	0	1
Secretary	0	0	1	0	1
Senior Comp. Info. Sys. Spec.	0	0	1	0	1
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>34</b>	<b>0</b>	<b>34</b>